



**Actuaries
Institute**

INSIGHTS 20 March 2014

SPS 160 Discussion Notes

- Actuarial requirements (March 2014)
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- Self-insurance issues (February 2014)
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Introduction

- SPS 160 a major change in managing DB
- Critical for actuaries to have strong understanding
- Main focus of DN1 on interim investigations, para 31 (UFP) statements and restoration plans
- DNs do not represent formal guidance
- Today's format – brief comments on each slide topic and then open to discussion

Monitoring process

- Trustee must establish monitoring process to detect shortfall limit (SFL) breaches
- May require actuarial input e.g. estimates
- Frequency considerations – note quarterly DBVB/VBI part of new APRA reporting required from 2014/15 (SRF 160.1)
- If possible breach of shortfall limit identified, interim investigation required unless:
 - Technically insolvent
 - Restoration plan already in place
 - Investigation already underway
 - Regular investigation due within 6 months => seek interim advice

Interim investigations

- Choosing the valuation date (VD):
 - key is timely and suitably reliable results
 - note impact on report timing and restoration period
- Estimates often necessary
- Consider interim recommendations
- Must allow for post-VD experience in findings

Interim investigations - report

- Must include estimate of VB and assets at VD (later estimate of VBI also desirable sometimes)
- Findings re financial position vs SFL
- Expect usual items included e.g. data, methodology, assumptions, limitations, consistency with prior results
- If feasible (where $VBI < SFL$ at report date), desirable to include para 31 (UFP) statement
- Note for regular investigations, require UFP statement/restoration plan if UFP (even if above SFL)

Para 31 UFP statements

- Include in interim invgn report or separate letter within 15 bus days; must include in reg invgn report
- Rec cont program (or date by which this will be provided) – this must be expected to restore UFP within the specified 3 year period
- Other recommended actions to address UFP – consider benefit payments, cred rates, inv strategy, insurance, discretions, monitoring process
- If not in invgn report consider usual items e.g. data, methodology, assumptions, limitations

Trustee actions/restoration plan

- Responsible actuary to be appointed for UFP period
- Includes advice re whether rules allow benefit payments to be deferred or reduced during UFP
 - Special top-ups may be an alternative
 - May offset addit conts already paid
 - Ideally set out agreed process in restoration plan
- Expect also includes cont program, inv strategy etc
- Restoration plan to include monitoring process

Monitoring process

- Consider:
 - Contributions (trustee)
 - Benefit payments (trustee)
 - Investment experience (trustee)
 - Estimated VBI (actuary or trustee)
 - Frequency
- Set out in restoration plan

Restoration plan amendments

- Ideally agree when & how adjustments will be determined and set out in restoration plan
- Note APRA approval required for extension of restoration period
- Using < 3 years for initial restoration plan may allow automatic extension of period if required
- SPG 160 indicates APRA expects to be notified of cont program changes (including 'early end')

Other

- Contents of reg invgn reports
- Vested benefits for pension plans - APRA FAQ 68
- UFP reporting to APRA
- New APRA DB reporting requirements – VB, accrued benefits; MRBs; self-insurance details
- Shortfall limits
- SPS 160 examples in Annexure to DN

Purpose and Status of Self Insurance Discussion Note

- Not a Professional Standard or Practice Guideline
- Deals with SIS Act and Regs, SPS 160 and SPG 160
 - Not SPS 250
- PS400 and PG499.01 require updating
- Feedback encouraged

New SIS Regulation Requirements

- From 1 July 2014, can only provide an insured benefit that meets a condition of release. Existing members' benefits and approvals grandfathered.
- Can only self insure "risks" self insured at 1 July 2013:
 - Accumulation members must be externally insured from 1 July 2016 (except where government guarantee)
 - Defined benefit members (including new members) can continue to be self insured unless prohibited by RSE license
- Until 1 July 2016 can continue self insurance on SFT. Proposal to all DB funds to retain this ability after 2016.

New SIS Regulation Requirements

- Self insurance is not:
 - under funding (at least generally)
 - run off claims once self insurance ceased (we understand)
 - approximations in estimating insured amount
 - where a lump sum is insured to provide a pension
- Self insurance includes the Trustee providing a benefit rejected by an external insurer

New SPS 160 Requirements

- Must maintain reserve or have other arrangement approved by APRA
 - Other arrangement may include adding an IBNR to liabilities or subtracting from assets plus funding through contributions
- Trustee must attest annually self insurance is in members' best interest, and have a contingency plan
- Understood to apply to Accumulation members until 30 June 2016

Actuarial Reviews

- Actuarial oversight required at least in actuarial investigations:
 - Annual and triennial actuarial investigations
 - To contain sufficient information for self insurance funding
 - Must demonstrate actuarial oversight
- Could do a separate report and summarise in investigation report

Reviews – SPG 160

- APRA expects actuary to consider
 - Adequacy Reserves or other arrangements
 - Risk profile (age, gender, geographic spread etc.)
 - Past claims
 - Catastrophe scenarios, where likely to be insufficient funding
- Trustee responsibility to determine if self insurance is appropriate, but actuary may make recommendation
- Actuary may recommend triggers for a interim self insurance review
- Refer PG 499.01

Reserves

- Recommended DB Reserve should cover:
 - IBNR
 - Claim fluctuation, if material
- In accumulation fund may also have a pricing/premium reserves
- Triennial review of IBNR considered generally adequate even if annual actuarial investigation
- Exclude IBNR Reserve from assets for funding indices and contribution calculations (or include liability so the impact is the same)
- Can include claim fluctuation reserve in assets for funding indices
- Approved arrangements treat consistently

